

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

INDEPENDENT AUDITORS' REPORT

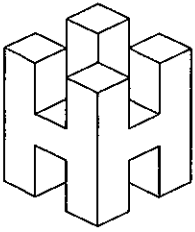
DECEMBER 31, 2011

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 10
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12 - 13
Fund Financial Statements:	
Balance Sheet - Governmental Funds	14
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	15
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds to the Statement of Activities	17
Statement of Net Assets - Proprietary Funds	18
Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds	19
Statement of Cash Flows - Proprietary Funds	20 - 21
Notes to Financial Statements	22 - 40
Other Supplementary Information:	
Budgetary Comparison Schedule - General Fund	41
Schedule of Expenditures of Federal Awards	42 - 43
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	44 - 45
Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	46 - 47
Schedule of Findings and Questioned Costs	48 - 50
Schedule of the Status of Prior Audit Findings	51

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INDEPENDENT AUDITORS' REPORT

Board of Supervisors
Dakota Dunes Community
Improvement District
Union County, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT, Union County, South Dakota, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Dakota Dunes Community Improvement District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Dakota Dunes Community Improvement District as of December 31, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2012, on our consideration of the Dakota Dunes Community Improvement District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and page 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Dakota Dunes Community Improvement District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Heijes, Lamer, & Williams, P.C.

Certified Public Accountants

Sioux City, Iowa
August 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Dakota Dunes Community Improvement District's annual financial report presents management's discussion and analysis of the District's financial performance for the year ended on December 31, 2011. Please read it in conjunction with the District's financial statements, which follow this section. Please note that the financial results from 2011 and outlined within this discussion were not typical due to extensive flooding that resulted from record releases from the Missouri River Reservoir System. Dakota Dunes Community Improvement District undertook extensive preventive and reconstruction activities during this time frame.

FINANCIAL HIGHLIGHTS

- The District's General Fund revenues generated from charges for services, property taxes, and other revenues typical to operations, but not related to flood activities was \$1,076,897 in 2011. This was a 5.9 percent increase mainly due to additional property tax collections. The increase in property tax collected was a function of a lower mill (3.1 in 2010 to 2.95 in 2011) and an increase in taxable value. Operating expenses increased from \$891,731 in 2010 to \$998,677 in 2011. This is primarily due to professional fees for future planning purposes and other expenses related to flood protection.
- The 2011 flood event also had an impact on the District's business-type activities such as its water and sanitary sewer funds. The Country Club area of Dakota Dunes was under evacuation order from May to September which essentially eliminated revenue from 430 accounts. As a result, the District experienced a 33 percent reduction in revenues from \$861,256 in 2010 to \$646,398 in 2011. Expenses increased by 6% from \$997,187 in 2010 to \$1,061,001 in 2011. The increase in expenses was due to the higher cost of water because the District relied solely on bulk water purchases from its secondary source of water via its connection to the Sioux City water system. The District's water plant was in the flood area and was temporarily taken off line during the flood event.
- As noted earlier, the Dakota Dunes Community Improvement District operations in 2011 centered around flood protection and recovery. The event started in late May and recovery efforts lasted through the end of the fiscal year. To fund preventive measures and recovery efforts the District secured a \$15 million loan from the State of South Dakota to fund the flood operation which was beyond the financial means of the District's ordinary operation budget. The loan acted as an operating line in anticipation of Federal Emergency Management Agency and State of South Dakota Public Assistance reimbursement of eligible costs. As of December 31, 2011, the District had drawn \$13,361,331 in State Loan to fund flood operations. The District received \$9,384,304 in FEMA/State Reimbursement, of which \$9,309,431 was applied to the State loan amount leaving a loan balance at the end of the fiscal year of \$4,051,900. The remaining \$74,873 of FEMA/State Reimbursement was deposited into the District's account to reimburse the District for a portion of its expenditures and to provide funding for repair projects. In 2011, the District spent \$13,685,429 on preventive measures and repair costs. Preventive measures consisted of approximately 7 miles of levee along the entire southern, eastern and western border of Dakota Dunes, securing and protecting critical infrastructure such as water and sanitary sewer utilities, plugging of storm sewers to the river and the implementation of a network of approximately 25 pumps for managing ground and storm water during the flood event. Repair measures included removal of all temporary levees per FEMA requirements, storm sewer reconstruction, restarting of the water and sewer utility, street repair and green space restoration. To fund debt service on the State loan the Board passed an opt-out resolution that would allow the District to collect up to an addition \$2.5 million per year over and above its normal operating tax revenue for 10 years to service debt associated with flood recovery. The State loan carries a 4.5 percent interest rate and will be amortized over a 5 year period with amortization to begin on December 29, 2012.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities (on pages 11-13) provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements start on page 14. These statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds.

The following summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Major Features of Dakota Dunes' Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire Dakota Dunes CID (except fiduciary funds and the fiduciary component units)	The activities of the District that are not proprietary or fiduciary	Activities the District operates similar to private businesses, the water and sewer systems
Required Financial Statements	*Statement of Net Assets *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Assets *Statement of Revenues, Expenses and Changes in Net Assets *Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of Inflow/Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the District as a whole begins on page 6. One of the most important questions asked about the District's finances: "Is the District as a whole better off or worse as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. The District's net assets is the difference between assets, what the District owns, and liabilities, what the District owes, and is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, however, such as changes in the District's property tax base and cost structure affect the overall health of the District.

Reporting the District's Most Significant Funds

Fund Financial Statements:	<u>Major Funds</u>
	- General
	- Flood Prevention
	- Water
	- Sewer

The fund financial statements begin on page 14 and provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law. However, the Board of Supervisors establishes other funds to help it control and manage cash for particular purposes. The District has two kinds of funds.

Governmental Funds: The District's services are reported in governmental funds, which focus on how cash flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation following the fund financial statements.

Proprietary Funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's two enterprise funds - water and sewer, are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 39 of this report.

THE DISTRICT AS A WHOLE

The District's total net assets decreased from a year ago, from \$26.9 million to \$20.5 million. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the District's governmental activities and business-type activities.

Table 1
Summary of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2011	2010	2011	2010	2011
Current and Other Assets	\$ 685,902	\$ 476,072	\$ 579,454	\$ 422,644	\$ 1,265,356	\$ 898,716
Capital Assets	<u>16,526,926</u>	<u>16,230,487</u>	<u>9,292,065</u>	<u>9,059,584</u>	<u>\$ 25,818,991</u>	<u>\$ 25,290,071</u>
Total Assets	\$ 17,212,828	\$ 16,706,559	\$ 9,871,519	\$ 9,482,228	\$ 27,084,347	\$ 26,188,787
Long-term Debt Outstanding	\$ 35,666	\$ 4,070,194	\$ 46,065	\$ 20,213	\$ 81,731	\$ 4,090,407
Other Liabilities	<u>96,555</u>	<u>370,774</u>	<u>33,244</u>	<u>107,509</u>	<u>\$ 129,799</u>	<u>\$ 478,283</u>
Total Liabilities	\$ 132,221	\$ 4,440,968	\$ 79,309	\$ 127,722	\$ 211,530	\$ 4,568,690
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	\$ 16,421,817	\$ 16,212,193	\$ 9,246,000	\$ 9,039,371	\$ 25,667,817	\$ 25,251,564
Restricted	12,190	12,190	-	-	12,190	12,190
Unrestricted	<u>646,600</u>	<u>(3,958,792)</u>	<u>546,210</u>	<u>315,135</u>	<u>1,192,810</u>	<u>(3,643,657)</u>
Total Net Assets	\$ 17,080,607	\$ 12,265,591	\$ 9,792,210	\$ 9,354,506	\$ 26,872,817	\$ 21,620,097

Total net assets of the District decreased by approximately \$6,374,000 in 2011. The decrease in total net assets in 2011 was due to the flood prevention effort. Unrestricted net assets, the portion of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased from approximately \$1,192,000 at the end of 2010 to a deficit of \$(4,764,000) at the end of 2011. This is due to the loan with the State of South Dakota for the flood prevention effort.

Table 2 compares the 2011 change in net assets to the 2010 change in net assets.

Table 2
Summary of Changes in Net Assets

	Governmental Activities		Business-type Activities		Total		Percent
	2010	2011	2010	2011	2010	2011	Change
Revenues:							
Program Revenues:							
Charges for Services	\$ 4,275	\$ 3,360	\$ 803,277	\$ 596,973	\$ 807,552	\$ 600,333	-25.7%
Capital Grants and Contributions	296,838	-	167,775	-	464,613	-	-100.0%
Operating Grants and Contributions	-	9,384,304	-	-	-	9,384,304	100.0%
General Revenues:							
Property Taxes	988,064	1,058,059	-	-	988,064	1,058,059	7.1%
Other	24,618	(46,229)	48,657	27,600	73,275	(18,629)	-125.4%
Total Revenues	\$ 1,313,795	\$ 10,399,494	\$ 1,019,709	\$ 624,573	\$ 2,333,504	\$ 11,024,067	372.4%
Expenses:							
General Government	\$ 292,185	\$ 387,380	\$ -	\$ -	\$ 292,185	\$ 387,380	32.6%
Public Safety	86,453	13,817,746	-	-	86,453	13,817,746	15883.0%
Public Works	781,393	788,793	-	-	781,393	788,793	0.9%
Culture and Recreation	332,575	218,698	-	-	332,575	218,698	-34.2%
Interest	3,274	1,893	-	-	3,274	1,893	-42.2%
Water	-	-	594,784	635,579	594,784	635,579	6.9%
Sewer	-	-	404,564	426,698	404,564	426,698	5.5%
Total Expenses	\$ 1,495,880	\$ 15,214,510	\$ 999,348	\$ 1,062,277	\$ 2,495,228	\$ 16,276,787	552.3%
Change in Net Assets	\$ (182,085)	\$ (4,815,016)	\$ 20,361	\$ (437,704)	\$ (161,724)	\$ (5,252,720)	
Net Assets - Beginning	17,262,692	17,080,607	9,771,849	9,792,210	27,034,541	26,872,817	
Net Assets - Ending	\$ 17,080,607	\$ 12,265,591	\$ 9,792,210	\$ 9,354,506	\$ 26,872,817	\$ 21,620,097	

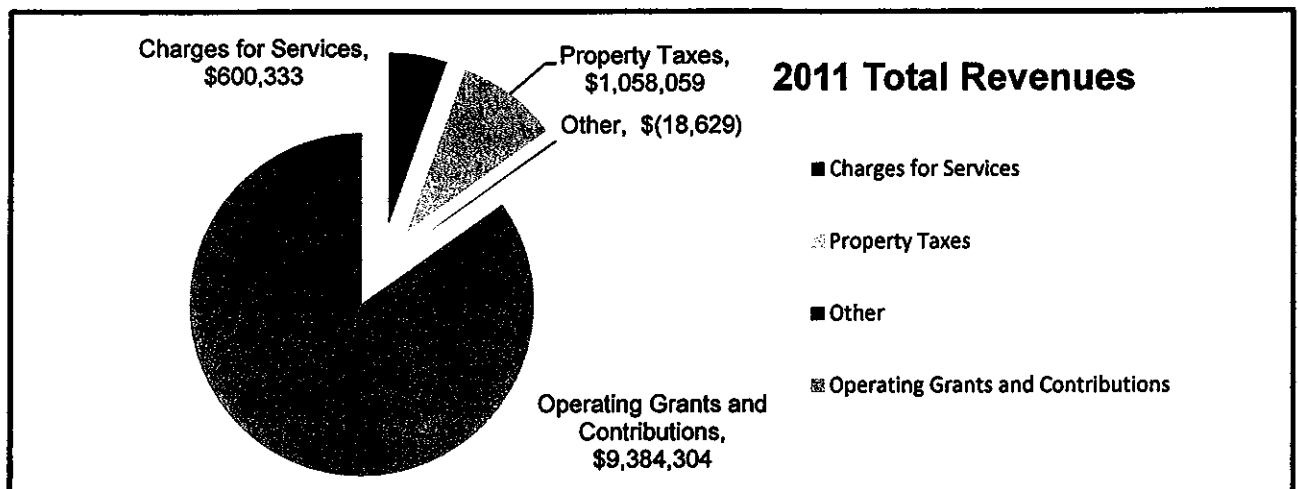
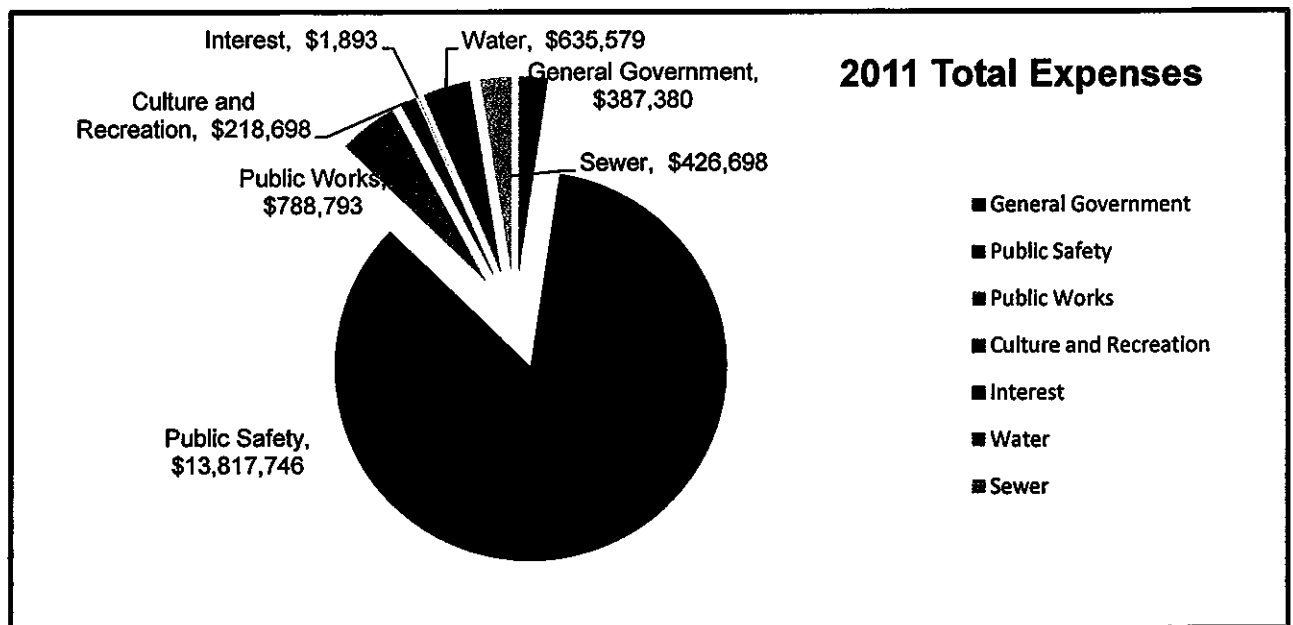


Table 3 presents the cost of each of the District's programs as well as each program's net cost (total cost less revenues generated by activities). The net cost shows the financial burden that was placed on the District by each of these functions.

Table 3
Cost of Services

	Total Cost of Services		Net (Cost) Revenue of Services	
	2010	2011	2010	2011
General Government	\$ 292,185	\$ 387,380	\$ (292,185)	\$ (387,380)
Public Safety	86,453	13,817,746	(82,178)	(4,430,082)
Public Works	781,393	788,793	(484,555)	(788,793)
Culture and Recreation	332,575	218,698	(332,575)	(218,698)
Interest	3,274	1,893	(3,274)	(1,893)
Water	594,784	635,579	3,452	(319,701)
Sewer	404,564	426,698	(31,748)	(145,603)
	<u>\$2,495,228</u>	<u>\$ 16,276,787</u>	<u>\$ (1,223,063)</u>	<u>\$ (6,292,150)</u>



THE DISTRICT'S FUNDS

The financial analysis of the District's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The District currently has two governmental funds - the general fund and the flood prevention fund, and two business-type funds, water and sewer. The flood prevention fund had a deficit balance at December 31, 2011, which is related to the public safety expenses for flood protection.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund 2011 revenues were over budget by \$2,306. The General Fund expenditures consist of General Government, Public Safety, Public Works, Culture and Recreation, Capital Outlay, and Debt Service. Within this budget, Dakota Dunes Community Improvement District spent \$4,323 less than budgeted in 2011. This can be explained by unused dollars within the public works and and culture and recreation line items. In contrast, general government was over budget by approximately \$70,000 due to a study being completed to help the District be prepared for future disasters. Public safety was over budget by approximately \$42,000 due to mosquito spraying and river bank stabilization work done in 2011.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets decreased by approximately \$530,000. This is mainly attributable to depreciation and amortization expense of \$1,000,000, net capital asset retirements of \$160,000, and capital asset additions of \$630,000.

Table 4
Capital Assets Net of Accumulated Depreciation

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
Land	\$ 2,256,861	\$ 2,256,861	\$ 73,806	\$ 73,806	\$ 2,330,667	\$ 2,330,667
Improvements other than Buildings	13,976,017	13,630,375	9,004,071	8,760,714	22,980,088	22,391,089
Machinery and Equipment	294,048	343,251	9,022	29,572	303,070	372,823
Intangible Assets	-	-	205,166	195,492	205,166	195,492
Total Capital Assets (Net)	<u>\$ 16,526,926</u>	<u>\$ 16,230,487</u>	<u>\$ 9,292,065</u>	<u>\$ 9,059,584</u>	<u>\$ 25,818,991</u>	<u>\$ 25,290,071</u>

This year's capital additions were approximately \$630,000. This is primarily due to storm sewer system improvements required by flood destruction. There were also some minor vehicle and equipment purchases.

Long-Term Liabilities

At year-end 2011, the District had long-term liabilities of \$4,103,040.

Total outstanding debt relating to financing leases for equipment purchases totaled \$18,294. The District retired approximately \$25,000 of the State Revolving Fund (SRF) loan for the water interconnect project, resulting in a balance of \$20,213 at December 31, 2011. During 2011, the District borrowed from the State of South Dakota in the amount of \$13,361,331 in order to pay for flood prevention costs. Payments of \$9,309,431 were made during the year using state and Federal agency reimbursements, resulting in a balance of \$4,051,900 at December 31, 2011.

In addition, the District is liable for accrued sick leave payable (\$12,633 at 2011, \$10,632 at 2010) to full-time employees who have been employed for more than 10 years. The increase in accrued sick leave payable is due to salary increases and an increase in the amount of leave accumulated and outstanding at the end of the year by these full-time employees.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's current economic position has been impacted by the 2011 flooding. In coming years and in addition to its normal operations, the District will have to raise additional revenue from its opt-out tax to service debt associated with the 2011 flood and preventive measures. The taxable value for the 2012 fiscal year increased 6.7 percent from 2011 to \$381,466,061. The District set an operation levy of \$2.986 per \$1000 in valuation which is an increase of \$.036 from 2011. In anticipation of debt service the District also set an opt out levy of \$2.22 per \$1,000 in valuation. Given the 2012 taxable value, this should generate \$847,000 in 2012 for servicing debt. While the taxable value increased from 2011 to 2012, it is expected that future aggregate taxable value will see a short term decrease and possible slower growth rates in the future due to tax abatements granted to some damaged properties in Dakota Dunes. At this point, this is viewed as a short term issue as value lost due to the abatements should return once repairs have been made to abated properties. Furthermore, the District did experience 1.9 percent in new taxable value in 2012.

Unlike municipalities, the District does not have authority to assess a sales tax. Therefore, a substantial amount of General Fund revenues comes from property tax.

The District-adopted General Fund operating budget for the 2012 fiscal year increased 31 percent to \$1,093,053 from 2011 of \$833,305. The increase was in anticipation of flood related repairs that would be needed in 2012.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the cash it receives. If you have questions about this report or need additional information, contact the District's Finance Office, P.O. Box 1997, 335 Sioux Point Road, Suite 200, Dakota Dunes, South Dakota 57049.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

STATEMENT OF NET ASSETS

DECEMBER 31, 2011

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-</u>	<u>Total</u>
	<u>Activities</u>	<u>Type</u>	
		<u>Activities</u>	
<u>ASSETS</u>			
Cash	\$ 295,296	\$ 354,545	\$ 649,841
Taxes Receivable	12,655		12,655
Accounts Receivable - Net	17,447	51,020	68,467
Inventory	138,484	17,079	155,563
Deposits	12,190		12,190
Capital Assets:			
Land	2,256,861	73,806	2,330,667
Other Capital Assets, Net of Depreciation	13,973,626	8,790,286	22,763,912
Intangible Assets, Net of Amortization		<u>195,492</u>	<u>195,492</u>
Total Assets	\$ 16,706,559	\$ 9,482,228	\$ 26,188,787
<u>LIABILITIES</u>			
Accounts Payable and Accrued Expenses	\$ 432,934	\$ 32,716	\$ 465,650
Internal Balances	(68,325)	68,325	-
Long-Term Liabilities:			
Due Within One Year	18,294	20,213	38,507
Due in More than One Year	<u>4,058,065</u>	<u>6,468</u>	<u>4,064,533</u>
Total Liabilities	\$ 4,440,968	\$ 127,722	\$ 4,568,690
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	\$ 16,212,193	\$ 9,039,371	\$ 25,251,564
Restricted for Risk Management	12,190		12,190
Unrestricted	(3,958,792)	<u>315,135</u>	(3,643,657)
Total Net Assets	\$ <u>12,265,591</u>	\$ <u>9,354,506</u>	\$ <u>21,620,097</u>

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2011

		<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
<u>GOVERNMENTAL ACTIVITIES</u>	<u>Expenses</u>		
General Government	\$ 387,380		
Public Safety	13,817,746	\$ 3,360	\$ 9,384,304
Public Works	788,793		
Culture and Recreation	218,698		
Interest on Long-Term Debt	<u>1,893</u>		
Total Governmental Activities	\$ 15,214,510	\$ 3,360	\$ 9,384,304
<u>BUSINESS-TYPE ACTIVITIES</u>			
Water	\$ 635,579	\$ 315,878	
Sewer	<u>426,698</u>	<u>281,095</u>	
Total Business-Type Activities	\$ <u>1,062,277</u>	\$ <u>596,973</u>	
Total Primary Government	\$ <u>16,276,787</u>	\$ <u>600,333</u>	\$ <u>9,384,304</u>

GENERAL REVENUES:

Property Taxes

Unrestricted Investment Earnings

(Loss) on Disposal of Capital Assets

Rental Income

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business- Type Activities	Total
\$ (387,380)		\$ (387,380)
(4,430,082)		(4,430,082)
(788,793)		(788,793)
(218,698)		(218,698)
(1,893)		(1,893)
\$ (5,826,846)	-	\$ (5,826,846)
	\$ (319,701)	\$ (319,701)
	(145,603)	(145,603)
-	\$ (465,304)	\$ (465,304)
\$ (5,826,846)	\$ (465,304)	\$ (6,292,150)
\$ 1,058,059		\$ 1,058,059
773	\$ 1,975	2,748
(105,838)	(23,800)	(129,638)
2,250	49,425	51,675
56,586		56,586
\$ 1,011,830	\$ 27,600	\$ 1,039,430
\$ (4,815,016)	\$ (437,704)	\$ (5,252,720)
17,080,607	9,792,210	26,872,817
\$ 12,265,591	\$ 9,354,506	\$ 21,620,097

See Accompanying Notes to Financial Statements

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

DECEMBER 31, 2011

	<u>General Fund</u>	<u>Flood Prevention Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash	\$ 295,296		\$ 295,296
Taxes Receivable	12,655		12,655
Accounts Receivable - Net	17,447		17,447
Interfund Receivable	371,671		371,671
Inventories	18,813	\$ 119,671	138,484
Deposits	<u>12,190</u>	<u> </u>	<u>12,190</u>
Total Assets	\$ <u>728,072</u>	\$ <u>119,671</u>	\$ <u>847,743</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 28,163	\$ 399,292	\$ 427,455
Accrued Wages	5,479		5,479
Deferred Revenue	13,913		13,913
Interfund Payable	<u> </u>	<u>303,346</u>	<u>303,346</u>
Total Liabilities	\$ 47,555	\$ 702,638	\$ 750,193
<u>FUND BALANCES</u>			
Nonspendable:			
Inventory	\$ 18,813	\$ 119,671	\$ 138,484
Deposits	12,190		12,190
Unassigned	<u>649,514</u>	<u>(702,638)</u>	<u>(53,124)</u>
Total Fund Balances (Deficit)	\$ <u>680,517</u>	\$ <u>(582,967)</u>	\$ <u>97,550</u>
Total Liabilities and Fund Balances	\$ <u>728,072</u>	\$ <u>119,671</u>	\$ <u>847,743</u>

See Accompanying Notes to Financial Statements

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

Total governmental fund balances (page 14)	\$	97,550
Amounts reported in governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		16,230,487
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(4,076,359)
Taxes receivable - delinquent and cable franchise fees are not available to pay for current period expenditures and therefore are deferred in the funds		<u>13,913</u>
Total net assets of governmental activities (page 11)	\$	<u>12,265,591</u>

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>General Fund</u>	<u>Flood Prevention Fund</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
Property Taxes	\$ 1,058,991		\$ 1,058,991
Intergovernmental Revenue			
Federal		\$ 8,280,268	8,280,268
State		1,104,036	1,104,036
Charges for Services	3,360		3,360
Rental Income	2,250		2,250
Interest	773		773
Miscellaneous	<u>11,523</u>	<u>45,063</u>	<u>56,586</u>
Total Revenues	\$ 1,076,897	\$ 9,429,367	\$ 10,506,264
<u>EXPENDITURES</u>			
Current:			
General Government	\$ 382,920		\$ 382,920
Public Safety	114,147	\$ 13,685,429	13,799,576
Public Works	183,911		183,911
Culture and Recreation	147,368		147,368
Capital Outlay	151,066	378,805	529,871
Debt Service:			
Principal	17,372	9,309,431	9,326,803
Interest	<u>1,893</u>		<u>1,893</u>
Total Expenditures	\$ <u>998,677</u>	\$ <u>23,373,665</u>	\$ <u>24,372,342</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 78,220	\$(13,944,298)	\$(13,866,078)
<u>OTHER FINANCING SOURCES</u>			
Proceeds from Sale of Capital Assets	\$ 23,000		\$ 23,000
Proceeds from Debt Issuance		\$ 13,361,331	13,361,331
Total Other Financing Sources	\$ <u>23,000</u>	\$ <u>13,361,331</u>	\$ <u>13,384,331</u>
Net Change in Fund Balance	\$ 101,220	\$(582,967)	\$(481,747)
Fund Balance - Beginning of Year	<u>579,297</u>		<u>579,297</u>
Fund Balance - End of Year	\$ <u>680,517</u>	\$(<u>582,967</u>)	\$ <u>97,550</u>

See Accompanying Notes to Financial Statements

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Net change in fund balances - total governmental fund (page 16)	\$(481,747)
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Amounts reported in governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Depreciation expense and loss on disposal of capital assets exceeded capital outlays in the current year as follows:

Expenditures for Capital Outlays	\$ 529,871	
Loss on Disposal of Capital Assets	(128,838)	
Depreciation Expense	(<u>697,472</u>)	(296,439)

Compensated absences reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds	(1,370)
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Revenue reported as deferred revenue in the governmental fund financial statements was recorded as revenue in the government-wide financial statements	(932)
--	--------

Payment on capital lease is an expenditure in the governmental funds but reduces long-term liabilities in the statement of net assets.	17,372
--	--------

Payment on loan is an expenditure in the governmental funds but reduces long-term liabilities in the statement of net assets	9,309,431
--	-----------

Proceeds from debt issuance reported as other financing sources in the governmental fund financial statements but increases long-term liabilities in the statement of net assets	(<u>13,361,331</u>)
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Change in net assets of governmental activities (page 12-13)	\$(<u>4,815,016</u>)
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DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

DECEMBER 31, 2011

	<u>ASSETS</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
<u>CURRENT ASSETS</u>				
Cash	\$ 354,545		\$ 354,545	
Accounts Receivable, Net	21,358	\$ 29,662	51,020	
Interfund Receivable	185,847		185,847	
Inventories	<u>17,079</u>		<u>17,079</u>	
Total Current Assets	\$ 578,829	\$ 29,662	\$ 608,491	
<u>CAPITAL ASSETS</u>				
Land	\$ 72,826	\$ 980	\$ 73,806	
Improvements Other Than Buildings	8,034,057	5,186,949	13,221,006	
Machinery and Equipment	54,034		54,034	
Intangible Assets	<u>244,864</u>		<u>244,864</u>	
	\$ 8,405,781	\$ 5,187,929	\$ 13,593,710	
Less Accumulated Depreciation and Amortization ..	<u>2,760,176</u>	<u>1,773,950</u>	<u>4,534,126</u>	
Capital Assets, Net	\$ 5,645,605	\$ 3,413,979	\$ 9,059,584	
Total Assets	\$ <u>6,224,434</u>	\$ <u>3,443,641</u>	\$ <u>9,668,075</u>	
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts Payable	\$ 6,425	\$ 15,598	\$ 22,023	
Accrued Wages	6,782	2,261	9,043	
Customer Deposits	650		650	
Deferred Revenue	1,000		1,000	
Interfund Payable		254,172	254,172	
Current Portion of Note Payable - SRF Loan	<u>20,213</u>		<u>20,213</u>	
Total Current Liabilities	\$ 35,070	\$ 272,031	\$ 307,101	
<u>NON-CURRENT LIABILITIES</u>				
Compensated Absences	\$ 4,851	\$ 1,617	\$ 6,468	
Total Non-Current Liabilities	\$ 4,851	\$ 1,617	\$ 6,468	
<u>NET ASSETS</u>				
Invested in Capital Assets, Net of Related Debt	\$ 5,625,392	\$ 3,413,979	\$ 9,039,371	
Unrestricted	<u>599,121</u>	(243,986)	<u>315,135</u>	
Total Net Assets	\$ 6,184,513	\$ 3,169,993	\$ 9,354,506	
Total Liabilities and Net Assets	\$ <u>6,224,434</u>	\$ <u>3,443,641</u>	\$ <u>9,668,075</u>	

See Accompanying Notes to Financial Statements

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET ASSETS

PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
<u>OPERATING REVENUES</u>			
Charges for Services	\$ 315,878	\$ 281,095	\$ 596,973
Rental Revenue	<u>49,425</u>	<u> </u>	<u>49,425</u>
Total Operating Revenues	\$ 365,303	\$ 281,095	\$ 646,398
<u>OPERATING EXPENSES</u>			
Personal Services	\$ 192,021	\$ 63,813	\$ 255,834
Other Current Expense	250,869	248,043	498,912
Depreciation	181,739	114,842	296,581
Amortization	<u>9,674</u>	<u> </u>	<u>9,674</u>
Total Operating Expenses	\$ <u>634,303</u>	\$ <u>426,698</u>	\$ <u>1,061,001</u>
Operating (Loss)	\$(269,000)	\$(145,603)	\$(414,603)
<u>NON-OPERATING REVENUES (EXPENSES)</u>			
Gain (Loss) on Disposal of Capital Assets	\$ 4,468	\$(28,268)	\$(23,800)
Investment Earnings	1,482	493	1,975
Interest Expense	(<u>1,276</u>)	<u> </u>	(<u>1,276</u>)
Total Non-Operating Revenues	\$ <u>4,674</u>	\$ (<u>27,775</u>)	\$(<u>23,101</u>)
Change in Net Assets	\$(264,326)	\$(173,378)	\$(437,704)
Net Assets - Beginning of Year	<u>6,448,839</u>	<u>3,343,371</u>	<u>9,792,210</u>
Net Assets - End of Year	\$ <u>6,184,513</u>	\$ <u>3,169,993</u>	\$ <u>9,354,506</u>

See Accompanying Notes to Financial Statements

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Cash Received from Customers	\$ 314,795	\$ 279,277	\$ 594,072
Cash (Paid to) Other Funds as Interfund			
Reimbursements	(36,740)	110,139	73,399
Cash Paid to Employees for Services	(191,200)	(63,539)	(254,739)
Cash Paid to Suppliers of Goods and Services	(260,436)	(247,828)	(508,264)
Rental Receipts	<u>49,425</u>	<u> </u>	<u>49,425</u>
Net Cash Provided (Used) by Operating Activities	\$(124,156)	\$ 78,049	\$(46,107)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Payment for Purchase of Capital Assets	\$(20,000)	\$(78,542)	\$(98,542)
Proceeds from Sale of Capital Assets	968		968
Principal Paid on Capital Debt	(25,852)		(25,852)
Interest Paid on Capital Debt	(<u>1,276</u>)	<u> </u>	(<u>1,276</u>)
Net Cash (Used) by Capital and Related Financing Activities	\$(46,160)	\$(78,542)	\$(124,702)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Sale of Certificates of Deposit	\$ 317,146		\$ 317,146
Interest Earned on Investments	<u>1,482</u>	\$ <u>493</u>	<u>1,975</u>
Net Cash Provided by Investing Activities ..	\$ <u>318,628</u>	\$ <u>493</u>	\$ <u>319,121</u>
Net Increase in Cash	\$ 148,312	-	\$ 148,312
Cash at Beginning of Year	<u>206,233</u>	<u> </u>	<u>206,233</u>
Cash at End of Year	\$ <u>354,545</u>	<u> </u>	\$ <u>354,545</u>

See Accompanying Notes to Financial Statements

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating (Loss)	\$(269,000)	\$(145,603)	\$(414,603)
Adjustments to Reconcile Net Operating (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	181,739	114,842	296,581
Amortization Expense	9,674		9,674
(Increase) Accounts Receivable	(1,033)	(1,818)	(2,851)
(Increase) in Interfund Receivable	(36,740)		(36,740)
(Increase) in Inventory	(9,173)		(9,173)
Increase (Decrease) in Accounts Payable	(394)	215	(179)
Increase in Accrued Wages	348	116	464
(Decrease) in Customer Deposits	(50)		(50)
Increase Interfund Payable		110,139	110,139
Increase in Compensated Absences	<u>473</u>	<u>158</u>	<u>631</u>
Net Cash Provided (Used) by Operating Activities	\$(<u>124,156</u>)	\$ <u>78,049</u>	\$(<u>46,107</u>)

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 1 - SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in the preparation of these financial statements.

A - Financial Reporting Entity

The reporting entity of the Dakota Dunes Community Improvement District (District), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity); those organizations for which the primary government is financially accountable; and, other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete. The District does not include any component units within its reporting entity.

B - Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients for goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund balances, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or it meets the following criteria:

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Cont.) B - Basis of Presentation - (Continued)

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise funds are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The major funds of the District financial reporting entity are described below:

Governmental Fund

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Flood Prevention Fund - The Flood Prevention Fund is a special revenue fund used to account for intergovernmental revenue received from FEMA and the State of South Dakota to pay for flood prevention costs incurred from a significant flooding event during summer 2011.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. Operating revenues and expenses are distinguished from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of enterprise funds are charges to customers for services. Operating expenses consist of cost of sales and services, administrative expenses and depreciation of capital assets.

Enterprise Funds - Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

The enterprise funds and business-type activities do not apply any FASB Statements and Interpretations issued after November 30, 1989.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Cont.) B - Basis of Presentation (Continued)

Water Fund - Financed primarily by user charges, this fund accounts for the construction, operation and maintenance of the District waterworks system and related facilities.

Sewer Fund - Financed primarily by user charges, this fund accounts for the construction, operation and maintenance of the District sanitary sewer and related facilities.

C- Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus

Government-Wide Financial Statements - In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements - In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental and similar fiduciary fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary funds.

Basis of Accounting

Government-Wide Financial Statements - In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when they occur (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements - All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the District is 30 days. The revenues which are accrued at December 31, 2011, are cable franchise revenues and reimbursements.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Cont.) C - Measurement Focus and Basis of Accounting (Continued)

Fund Financial Statements (Continued)

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

D - Interfund Eliminations and Reclassifications

Government-Wide Financial Statements - In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as internal balances.

E - Capital Assets

Capital Assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets.

The accounting treatment of capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Cont.) E - Capital Assets (Continued)

Government-Wide Statements - Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The total December 31, 2011, balance of governmental activities capital assets are valued at original cost. The total December 31, 2011, balance of business-type capital assets are valued at original cost.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems are recorded at cost, and classified as "Improvements Other Than Buildings".

Depreciation and amortization of all exhaustible capital assets is recorded as an allocated expense in the government-wide statement of activities, with net capital assets reflected in the statement of net assets. Accumulated depreciation and amortization is reported on the government-wide statement of net assets and on each proprietary fund's statement of net assets/balance sheet.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation and amortization methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation/ Amortization Method</u>	<u>Estimated Useful Life</u>
Land and Land Rights	All	N/A	N/A
Buildings	\$ 50,000	Straight-Line	50 Years
Improvements Other Than Buildings:			
Water/Sewer Lines	\$ 25,000	Straight-Line	50 Years
Roads	\$ 50,000	Straight-Line	15-75 Years
Other Improvements	\$ 10,000	Straight-Line	15-50 Years
Machinery, Equipment and Vehicles	\$ 2,500	Straight-Line	5-20 Years
Intangible Assets	\$ 25,000	Straight-Line	20-30 Years

Land is an inexhaustible capital asset and is not depreciated.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Cont.) E - Capital Assets (Continued)

Fund Financial Statements - In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

F - Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of notes payable, financing (capital acquisition) leases, and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

G - Program Revenues

Program revenues derive directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

Charges for Services - These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.

Program-Specific Operating Grants and Contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.

Program-Specific Capital Grants and Contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Cont.) H - Proprietary Funds Revenue and Expense Classifications

In the proprietary funds' Statement of Revenues, Expenses, and Changes in Net Assets, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

I - Cash and Cash Equivalents

The District pools the cash resources of its proprietary funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the Statement of Cash Flows.

J - Equity Classifications

Government-Wide Statements - Equity is classified as net assets and is displayed in three components:

Invested in Capital Assets, Net of Related Debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets - Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Financial Statements - Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Cont.) K - Application of Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available it is the District's policy to first use restricted net assets, prior to the use of unrestricted net assets. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

L - Fund Balance Classification Policies and Procedures

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-Spendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Finance Officer.

Unassigned - Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 2 - DEPOSITS AND INVESTMENTS

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The District's cash deposits are made in qualified public depositories in the form of demand and time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits District funds to be invested only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchased agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

All of the District's investments were in bank certificates of deposits with initial maturities of greater than 90 days. All investments were liquidated during 2011 as part of the flood prevention effort.

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The District's policy is to credit all income from deposits and investments to the fund making the investment.

Note 3 - RECEIVABLES AND PAYABLES

Receivables and payables due from or to a single party are not aggregated in these financial statements. The District expects all receivables to be collected within a year.

Note 4 - INVENTORY

Inventory in the General Fund consists of expendable supplies held for consumption. Supply inventories are recorded at cost. Inventory in the Flood Prevention Fund consists of expendable supplies held for sale or consumption. These inventories are recorded at their estimated market value (which is below cost).

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 4 - INVENTORY

(Cont.) Inventory acquired for resale in the proprietary funds is recorded as an asset when acquired. The consumption of inventories held for resale is charged to expense as it is consumed. Inventories held for resale are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

Government-Wide Financial Statements - In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

Fund Financial Statements - In the fund financial statements, inventory is recorded as an asset at the time of purchase and charged to expense as it is consumed. Material supply inventories are off-set by a nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Note 5 - DEFERRED REVENUE

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Note 6 - PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year.

The District is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the District. The maximum mill levy by state statute is 10.0.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 7 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2011, is as follows:

	Balance January 1, 2011	<u>Increases</u>	<u>Decreases</u>	Balance December 31, 2011
<u>Governmental Activities:</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 2,256,861	_____	_____	\$ 2,256,861
Total Capital Assets Not Being Depreciated	\$ 2,256,861	-	-	\$ 2,256,861
Capital Assets, Being Depreciated:				
Improvements Other Than Buildings	\$ 25,434,428	\$ 378,805	\$(212,992)	\$ 25,600,241
Machinery and Equipment	848,166	151,066	(72,523)	926,709
Total Capital Assets Being Depreciated	\$ 26,282,594	\$ 529,871	\$(285,515)	\$ 26,526,950
Less Accumulated Depreciation:				
Improvements Other Than Buildings	\$ 11,458,411	\$ 612,138	\$(100,683)	\$ 11,969,866
Machinery and Equipment	554,118	85,334	(55,994)	583,458
Total Accumulated Depreciation	\$ 12,012,529	\$ 697,472	\$(156,677)	\$ 12,553,324
Total Net Capital Assets, Being Depreciated	\$ 14,270,065	\$(167,601)	\$(128,838)	\$ 13,973,626
Governmental Activities Capital Assets, Net	\$ 16,526,926	\$(167,601)	\$(128,838)	\$ 16,230,487

Depreciation expense was charged to functions as follows:

General Government	\$ 3,090
Public Safety	18,170
Public Works	604,882
Culture and Recreation	71,330
Total Depreciation Expense - Governmental Activities	\$ 697,472

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 7 - CHANGES IN CAPITAL ASSETS
(Cont.)

	<u>Balance January 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2011</u>
<u>Business-Type Activities:</u>				
Capital Assets, Not Being Depreciated/Amortized:				
Land	\$ 73,806	_____	_____	\$ 73,806
Total Capital Assets				
Not Being Depreciated/ Amortized	\$ 73,806	-	-	\$ 73,806
Capital Assets, Being Depreciated/ Amortized:				
Improvements Other Than				
Buildings	\$ 13,189,712	\$ 78,542	\$ (47,248)	\$ 13,221,006
Machinery and Equipment	54,804	23,500	(24,270)	54,034
Intangible Assets	<u>244,864</u>	_____	_____	<u>244,864</u>
Total Capital Assets Being Depreciated/Amortized	\$ 13,489,380	\$ 102,042	\$ (71,518)	\$ 13,519,904
Less Accumulated Depreciation/ Amortization:				
Improvements Other Than				
Buildings	\$ 4,185,641	\$ 293,631	\$ (18,980)	\$ 4,460,292
Machinery and Equipment	45,782	2,950	(24,270)	24,462
Intangible Assets	<u>39,698</u>	<u>9,674</u>	_____	<u>49,372</u>
Total Accumulated Depreciation/ Amortization	\$ 4,271,121	\$ 306,255	\$ (43,250)	\$ 4,534,126
Total Net Capital Assets, Being Depreciated/ Amortized	\$ 9,218,259	\$ (204,213)	\$ (28,268)	\$ 8,985,778
Business-Type Activities Capital Assets, Net	\$ <u>9,292,065</u>	\$ (204,213)	\$ (28,268)	\$ <u>9,059,584</u>

Depreciation and amortization expense was charged to functions as follows:

Water Fund	\$ 191,413
Sewer Fund	<u>114,842</u>
Total Depreciation and Amortization Expense - Business - Type Activities	\$ <u>306,255</u>

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 8 - LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	<u>Balance January 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2011</u>	<u>Due Within One Year</u>
Primary Government:					
Government Activities:					
Financing (Capital					
Acquisition) Lease	\$ 35,666		\$(17,372)	\$ 18,294	\$ 18,294
State of South Dakota Loan	-	\$13,361,331	(9,309,431)	4,051,900	-
Compensated Absences	<u>4,795</u>	<u>6,165</u>	(<u>4,795</u>)	<u>6,165</u>	<u>-</u>
Total Governmental					
Activities	\$ 40,461	\$13,367,496	\$(9,331,598)	\$ 4,076,359	\$ 18,294
Business-Type Activities:					
SRF Loan	\$ 46,065		\$(25,852)	\$ 20,213	\$ 20,213
Compensated Absences	<u>5,837</u>	<u>6,468</u>	(<u>5,837</u>)	<u>6,468</u>	<u>-</u>
Total Business-Type					
Activities	\$ <u>51,902</u>	\$ <u>6,468</u>	\$(<u>31,689</u>)	\$ <u>26,681</u>	\$ <u>20,213</u>
Total Primary					
Government	\$ <u>92,363</u>	\$ <u>13,373,964</u>	\$(<u>9,363,287</u>)	\$ <u>4,103,040</u>	\$ <u>38,507</u>

Debt Payable at December 31, 2011, is comprised of the following:

The SRF Loan is payable in quarterly payments of \$6,782 with an interest rate of 3.5 percent and will mature July 1, 2012.

Payments will be made from the Water Fund \$ 20,213

Compensated absences are amounts due to employees for accrued sick leave. Payments will be made from the General Fund \$ 6,165

Compensated asences are amounts due to employees for accrued sick leave. Payments will be made from the Water Fund \$ 4,851

Compensated absences are amounts due to employees for accrued sick leave. Payments will be made from the Sewer Fund \$ 1,617

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 8 - LONG-TERM LIABILITIES
(Cont.)

Financing (capital acquisition) lease - street sweeper, payable in annual payments of \$19,265 and will mature April 1, 2012. Payments will be made from the General Fund \$ 18,294

The State of South Dakota Loan will be payable in semi-annual payments on the 15th day of June and December beginning on the first such date after the Initial Amortization date and will mature in five years. The Initial Amortization date is the earlier of 30 days after the final FEMA payment or December 29, 2012. The interest rate on the loan is 4.5% and begins to accrue on the Initial Amortization date. Payments on the loan will be made from State and FEMA reimbursements and opt out property tax revenue. The loan is secured by a security interest in opt out property tax revenues. \$ 4,051,900

The State of South Dakota loan noted above was approved for \$15,000,000 of non-revolving funds. The District had \$1,638,669 available to borrow at December 31, 2011, also see Note 16.

The gross amount of capital assets recorded in the balance sheet as financing leases is \$167,088, and is being depreciated over the shorter of the estimated useful-life of the asset, or the lease term, as appropriate.

The annual requirements to amortize all debt outstanding as of December 31, 2011, except for compensated absences are as follows:

Ending December 31,	SRF Loan		Financing (Capital Acquisition) Leases		State of South Dakota Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 20,213	\$ 357	\$ 18,294	\$ 971	-	-	\$ 38,507	\$ 1,328
2013					\$ 745,296	\$ 167,225	745,296	167,225
2014					772,315	140,205	772,315	140,205
2015					807,461	105,060	807,461	105,060
2016					844,206	68,316	844,206	68,316
2017					882,622	29,899	882,622	29,899
Total	\$ <u>20,213</u>	\$ <u>357</u>	\$ <u>18,294</u>	\$ <u>971</u>	\$ <u>4,051,900</u>	\$ <u>510,705</u>	\$ <u>4,090,407</u>	\$ <u>512,033</u>

Note 9 - OPERATING LEASES

The District leases office space in the Dakota Dunes Welcome Center building. Payments are made from the General Fund, the Water Fund and the Sewer Fund. The initial lease term was five years, terminating November 30, 2006, with three five-year renewal options. During 2006, the District exercised the first five-year option. During 2011, the District exercised the second five-year option.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 9 - OPERATING LEASES

(Cont.) The District also leases a maintenance building and a cold storage facility. These leases were renewed during April 2010 for a five year period, with five one-year renewal options.

The following are the minimum payments on existing operating leases:

<u>Years Ending</u>	<u>General Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
2012	\$ 43,062	\$ 9,046	\$ 3,015	\$ 55,123
2013	43,062	9,046	3,015	55,123
2014	43,062	9,046	3,015	55,123
2015	19,811	9,046	3,015	31,872
2016	<u>11,056</u>	<u>8,292</u>	<u>2,764</u>	<u>22,112</u>
	<u>\$ 160,053</u>	<u>\$ 44,476</u>	<u>\$ 14,824</u>	<u>\$ 219,353</u>

Total rental expenditures for operating leases for the year ended December 31, 2011, were \$60,540.

Note 10 - INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivable and payable balances at December 31, 2011, were:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Funds:		
General Fund	\$ 371,671	
Flood Prevention Fund		\$ 303,346
Enterprise Funds:		
Water	185,847	
Sewer		<u>254,172</u>
Total	\$ <u>557,518</u>	\$ <u>557,518</u>

Interfund receivable and payable balances represent amounts due to/from other funds. Additionally, the water and sewer funds share a common cash account so the interfund balance between the water and sewer fund is the sewer fund's share of the cash balance on hand in the water fund. All interfund activity is expected to be repaid within one year.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 11 - RETIREMENT PLAN

All employees, except for part-time and/or temporary employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, South Dakota 57501-1098 or by calling (605) 773-3731.

Full-time employees are required by state statute to contribute 6% of their salary to the plan. A full-time employee is defined as one who works at least twenty hours per week for six months of the year. State statute requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the fiscal years ended December 31, 2011, 2010 and 2009, were \$25,281, \$23,588, and \$23,405, respectively, equal to the required contributions each year.

Note 12 - LITIGATION

During January 2010, the District was named as a defendant in a claim filed by a Dakota Dunes resident. The complaint does not contain any specific factual statements claiming that the District is responsible for monetary damages and therefore the District does not anticipate any loss as a result of this litigation.

During December 2011, the District was named as a defendant in a claim filed by another Dakota Dunes resident. The District's liability insurance carrier is providing the legal defense. It is anticipated that the District will be dismissed from the lawsuit since the plaintiff failed to provide written notice to the District within the required time frame.

During November 2011, the District received a 180-day statutory notice and a claimant report was received by the District's insurance carrier. As of the report date, a lawsuit has not been filed.

Note 13 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2011, the District managed its risks as follows:

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 13 - RISK MANAGEMENT

(Cont.)

Liability Insurance - The District is a member of the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The District's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the District. The District pays an annual premium to provide coverage for torts, auto liability, and physical damage; and errors and omissions of public officials.

The agreement with the SDPAA provides that the above coverage will be provided to varying limits. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit.

A portion of the member premiums are also allocated to a cumulative reserve fund. The District would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of District's	First Full Year	50%
End of District's	Second Full Year	60%
End of District's	Third Full Year	70%
End of District's	Fourth Full Year	80%
End of District's	Fifth Full Year	90%
End of District's	Sixth Full Year and Thereafter	100%

As of December 31, 2011, the District has vested balance in the cumulative reserve fund of \$12,190 and a total balance, including the non vested portion, of \$12,841.

The District carries a \$1,000 deductible for the automobile coverage, a \$2,500 deductible for machinery coverage, \$1,000 deductible for buildings, contents and municipal income, and \$250 deductible for miscellaneous property coverage.

The District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 13 - RISK MANAGEMENT
(Cont.)

Workers' Compensation - The District is a member of the South Dakota Municipal League Workers' Compensation Fund (SDMLWC), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDMLWC is to formulate, develop, and administer, on behalf of the member organizations, a program of workers' compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the SDMLWC to resolve any workers' compensation claims. The District pays an annual premium to the pool to provide workers' compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$325,000 of any claim per individual. The pool has reinsurance, which covers up to an additional \$1,675,000 per individual per incident.

The District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Unemployment Benefits - The District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. At December 31, 2011, no claims for unemployment benefits were filed or paid.

Note 14 - RELATED PARTY TRANSACTIONS

The District leases a maintenance building from a related party. A board member of the District is also a key employee of the related party. Total lease payments made to the related party were \$26,033 for the year ended December 31, 2011. During 2011, the District also paid the related party \$19,642 for Flood Prevention contract labor.

Note 15 - 2011 FLOODING EVENT

The District experienced a significant flooding event from June 2011 through September 2011, requiring emergency construction of a levee system to protect the District's infrastructure and other real property within the District. In addition, other emergency actions were taken including the evacuation of approximately 50% of the residential area within the District.

The State and Federal agency reimbursements received and the flood prevention expenditures are recorded in the District's Flood Prevention Fund.

Under the terms of the Federal agency reimbursements received in 2011 the District was required to remove the temporary levee system which was still in place at December 31, 2011. The total costs incurred for removal of the levee system during 2012 was \$995,278.

During the flooding event, the District borrowed dirt from the City of North Sioux City for use in constructing the emergency levee system. The District is obligated to return the fill material upon removal of the levee system. The District anticipates needing to supplement the amount of dirt recovered upon removal of the levee system, no estimate of the potential costs under this commitment has been included in these financial statements.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 16 - SUBSEQUENT EVENTS

During March 2012, the District obtained an available line of credit of \$700,000 with a local bank payable over 10 years at 4.5% interest.

During May 2012, the District sold three long-term tower leases for \$515,000 for the period May 10, 2012 through May 31, 2052.

Through July 31, 2012, the District has borrowed an additional \$1,234,743 from the State of South Dakota loan described in Note 8 and the District has received State and Federal agency reimbursements of \$1,530,983 as of July 31, 2012, leaving a remaining loan balance of \$4,052,189. As a result of the additional reimbursements and other payments made on the loan, it is expected that the loan balance to amortize will be approximately \$3,500,000 as of December 31, 2012.

In preparing the financial statements, the District has evaluated all subsequent events, for potential recognition or disclosure, through August 31, 2012, the date the financial statements were available to be issued.

OTHER SUPPLEMENTARY INFORMATION

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

OTHER SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Budgeted Amounts</u> <u>Original and Final</u>	<u>Actual</u> <u>Amounts</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Variance</u> <u>Positive</u> <u>(Negative)</u>
<u>REVENUES</u>			
Property Taxes	\$ 1,054,991	\$ 1,058,991	\$ 4,000
Charges for Goods and Services	2,000	3,360	1,360
Investment Earnings	2,000	773	(1,227)
Rentals	2,250	2,250	-
Other	<u>13,350</u>	<u>11,523</u>	(<u>1,827</u>)
Total Revenues	\$ 1,074,591	\$ 1,076,897	\$ <u>2,306</u>
<u>EXPENDITURES</u>			
General Government	\$ 313,355	\$ 382,920	\$(69,565)
Public Safety	71,950	114,147	(42,197)
Public Works	220,095	183,911	36,184
Culture and Recreation	229,600	147,368	82,232
Capital Outlay	149,000	151,066	(2,066)
Debt Service	<u>19,000</u>	<u>19,265</u>	(<u>265</u>)
Total Expenditures	\$ <u>1,003,000</u>	\$ <u>998,677</u>	\$ <u>4,323</u>
Excess of Revenues Over Expenditures	\$ 71,591	\$ 78,220	
<u>OTHER FINANCING SOURCES</u>			
Proceeds from Sale of Capital Assets		<u>23,000</u>	
Net Change in Fund Balance	\$ 71,591	\$ 101,220	
Fund Balance - Beginning of Year	<u>579,297</u>	<u>579,297</u>	
Fund Balance - End of Year	\$ <u>650,888</u>	\$ <u>680,517</u>	

Notes:

1. The District does not have a state imposed requirement for a legally adopted budget; but is required to submit an annual budget to Union County. This budgetary comparison schedule is presented for supplementary analysis purposes and compares actual operating results for the general fund with amounts budgeted and approved by the District's Board of Supervisors.
2. The budget is prepared in accordance with the modified accrual basis of accounting.
3. The expenditures for general government exceeded budgeted amounts due to a study being completed to help the District be prepared for future disasters.
4. The expenditures for public safety exceeded budgeted amounts due to mosquito spraying and river bank stabilization work done in 2011.
5. A budget was not adopted for the Flood Prevention Fund due to the unexpected nature of the activity.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

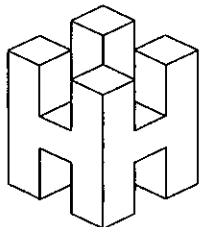
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
Indirect:			
U.S. Department of Homeland Security:			
Indirect Through State of South Dakota			
Department of Public Safety:			
Disaster Grants - Public Assistance	97.036	FEMA-PA-1984 PW919, 921, 1006	\$ 3,599,212
Disaster Grants - Public Assistance	97.036	FEMA-PA-1984 PW922	455,924
Disaster Grants - Public Assistance	97.036	FEMA-PA-1984 PW1008	1,677,660
Disaster Grants - Public Assistance	97.036	FEMA-PA-1984 PW1079, 1080, 1082, 1222	349,191
Disaster Grants - Public Assistance	97.036	FEMA-PA-1984 PW1081	66,065
Disaster Grants - Public Assistance	97.036	FEMA-PA-1984 PW1456, 1579	929,598
Disaster Grants - Public Assistance	97.036	FEMA-PA-1984 PW1695, 1696, 1697	187,211
Disaster Grants - Public Assistance	97.036	FEMA-PA-1984 PW1809, 1810, 1819, 1820, 1821, 1896	997,772
Disaster Grants - Public Assistance	97.036	FEMA-PA-1984 PW2009	<u>17,635</u>
Total Federal Awards			\$ <u>8,280,268</u>

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Dakota Dunes Community Improvement District and is presented on the modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



HENJES, CONNER &
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

Board of Supervisors
Dakota Dunes Community
Improvement District
Union County, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT (the District), Union County, South Dakota, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency 2011-02 described in the accompanying schedule of findings and questioned costs to be a material weakness.

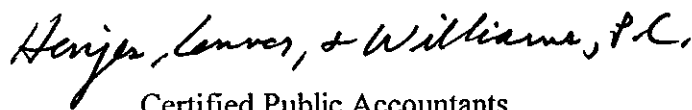
A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency 2011-01 described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

Compliance and Other Matters

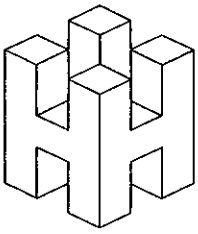
As part of obtaining reasonable assurance about whether the Dakota Dunes Community Improvement District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the Entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

Sioux City, Iowa
August 31, 2012



HENJES, CONNER &
WILLIAMS, P.C.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133

Board of Supervisors
Dakota Dunes Community
Improvement District
Union County, South Dakota

We have audited DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT'S compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Dakota Dunes Community Improvement District's major federal programs for the year ended December 31, 2011. Dakota Dunes Community Improvement District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Dakota Dunes Community Improvement District's management. Our responsibility is to express an opinion on Dakota Dunes Community Improvement District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Dakota Dunes Community Improvement District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Dakota Dunes Community Improvement District's compliance with those requirements.

In our opinion, Dakota Dunes Community Improvement District, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of questioned costs as item 2011-3.

Internal Control over Compliance

Management of Dakota Dunes Community Improvement District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Dakota Dunes Community Improvement District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Dakota Dunes Community Improvement District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2011-3. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Dakota Dunes Community Improvement District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Dakota Dunes Community Improvement District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the Entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Henry, Conner, & Williams, P.C.
Certified Public Accountants

Sioux City, Iowa
August 31, 2012

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DECEMBER 31, 2011

Part I: Summary of the Independent Auditors' Results:

Financial Statements

Type of Auditor's Report Issued:

Unqualified

Internal Control Over Financial Reporting:

Material Weakness(es) Identified?

X Yes No

Significant Deficiencies Identified Not Considered to be
Material Weakness(es)?

X Yes None
Reported

Noncompliance Material to Financial Statements Noted?

 Yes X No

Federal Awards

Internal Control Over Major Programs:

Material Weakness(es) Identified?

 Yes X No

Significant Deficiencies Identified Not Considered to be
Material Weakness(es)?

X Yes None
Reported

Type of Auditor's Report Issued on Compliance for Major Programs:

Unqualified

Any Audit Findings Disclosed That are Required to be Reported
in Accordance With Section 510(a) of Circular A-133?

X Yes No

Major Program

- CFDA Number 97.036 Disaster Grants - Public Assistance

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee Qualified as Low-Risk Auditee?

 Yes X No

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DECEMBER 31, 2011

Part II: Findings Related to the Financial Statements

Significant Deficiency:

2011-01 Financial Statement Preparation

Condition - The District does not have a system of internal control over the preparation of the financial statements and note disclosures.

Criteria - The financial statements are the responsibility of the District's management. A system of internal control over financial reporting includes controls over financial statement preparation, including note disclosures.

Cause - The District does not have the resources available to draft the financial statements and note disclosures.

Effect - Henjes, Conner, & Williams, PC drafted the financial statements and note disclosures.

Recommendation - We recommend that management and the Board review the process for financial statement preparation in order to maximize internal controls.

Response - The District reviews the financial statements and note disclosures and makes changes as appropriate. The District understands the nature of the control deficiency and will continue to assess the cost/benefit of designing and implementing controls over financial statement preparation.

Material Weakness:

2011-02 Financial Accounting - Recording Errors

Condition - We noted material reporting errors on the District's annual financial report related to capital assets and inventory.

Criteria - Proper financial reporting requires that transactions be recorded accurately and completely.

Cause - Material adjustments had to be made to accurately reflect financial position and proper presentation of certain transactions.

Effect - Financial statements that are not prepared completely and accurately diminish the reliability of the financial data supplied to users.

Recommendation - Care should be taken to properly report all transactions to allow the preparation of financial statements that are complete and accurate in accordance with U.S. generally accepted accounting principles.

Response - The District will strive to properly record transactions to allow for accurate financial statement preparation.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DECEMBER 31, 2011

Part III: Findings and Questioned Costs - Major Federal Award Program Audit

Material Weakness:

None Reported

Significant Deficiency:

US Department of Homeland Security: Disaster Grants - Public Assistance - CFDA No. 97.036

2011-03 Excluded Parties List System (EPLS)

Condition - The District did not review the EPLS system for vendors for whom costs were submitted under the Federal assistance program.

Criteria - Program compliance requirements require that grant recipients perform a verification check using the EPLS to ascertain that contractors are not suspended or debarred parties.

Cause - The District was not aware of the compliance requirement at the time contracts were awarded and did not verify eligibility prior to submitting the costs for reimbursement.

Effect - The District did not verify contractor eligibility prior to submission of these costs for reimbursement.

Recommendation - We recommend that management review the procedures for review of applicable compliance requirements for all Federal funds requests in the future and establish procedures to ensure compliance with those requirements.

Response - The District understands the nature of the control deficiency and will implement procedures to ensure compliance with all program compliance requirements in the future.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS

DECEMBER 31, 2011

STATUS OF PRIOR AUDIT FINDINGS

2010-01 Financial Statement Preparation

The District does not have a system of internal control over the preparation of the financial statements and note disclosures. The District has determined that the costs outweigh the benefits and has continued to have the auditor draft the financial statements and note disclosures.

2010-02 Financial Accounting - Recording Errors

The District has posted the required entries to correct the 2010 recording errors.